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17555 PEAK AVENUE MORGAN HILL CALIFORNIA 95037

## MORGAN HILL

Morgan Hill Civic Center  
West Conference Room  
17555 Peak Avenue  
Morgan Hill, California

Chair	Mike Roorda
Committee Member	Dennis Kennedy
Committee Member	Greg Sellers
Staff: Finance Director	Jack Dilles

## FINANCE AND AUDIT COMMITTEE

### SPECIAL MEETING

Wednesday, May 22, 2003

### MINUTES

10:10 P.M.

### CALL TO ORDER

Chair Roorda (attending by conference telephone call)  
and Committee Members Kennedy & Sellers  
*Staff:* Dilles

### DECLARATION OF POSTING OF AGENDA

In compliance with Government Code 54954.2

### PUBLIC COMMENTS

The Morgan Hill Finance and Audit Committee welcomes comments from all individuals on any agenda item being considered by the Committee. In the interest of brevity and timeliness and to ensure the participation of all those desiring an opportunity to speak, comments presented to the Committee are limited to Three Minutes.

## BUSINESS:

### 1. **Reserves**

*The Committee discussed the City's current 40% reserve policy for the General Fund and the need for this level. Committee Member Kennedy indicated that if the reserve requirement were reduced to 25%, half of the 5 year excess of projected revenues over projected expenditures could be accomplished through cost cutting and half through the use of reserves. This would provide opportunities to explain the need for new revenue sources. He recommended that a couple of alternatives be presented to the City Council at the upcoming budget workshop. One scenario, already incorporated in the budget document, would be a 5 year projection of fund balance with the current 40% reserve policy, and the second scenario would show the effect on the five year plan of a reduction in the reserve requirement to 25%. Chair Roorda indicated that he thought the City is moving toward balancing revenues and expenditures, and are we really aiming toward that goal? He views reserves as a buffer to get to where you want and not to permanently subsidize costs. Committee Member Kennedy said he had no problem using reserves down to the 25% level, but does have a problem in not balancing revenues and expenditures. Reserves should be used for one-time expenditures. Committee Member Sellers indicated that it is appropriate to use General Fund reserves for economic development, which would have the effect of raising revenues. Chair Roorda indicated that he is not sure he supports a reduction in reserves.*

*Committee Member Kennedy indicated, in summary, that 4 actions should be taken:*

- 1) Staff is to put together a 5 year chart showing what would happen over that time if the reserve requirement dropped to 25%, for presentation to the City Council at the upcoming budget workshop*
- 2) The City should proceed at the appropriate time with a survey to determine support in the community for new revenue sources*
- 3) Staff is to have available copies of the summary of revenue sources and copies of surveys of reserve policy limits adopted by other cities, previously provided to the Committee, for distribution at the budget workshop*
- 4) The Finance and Audit Committee should report to the City Council on the subjects of revenues and reserves at the upcoming City budget workshop*

*Committee Member Sellers said the City should focus on enhanced revenues. Chair Roorda indicated he is comfortable with supporting the current service level, but is hesitant to talk about just one side; we should fill in the whole picture. Committee Member Kennedy indicated that staff should talk at the budget workshop about the cumulative cuts in costs that have been implemented.*

### 2. **Revenues**

*Staff summarized previous staff reports concerning potential revenue sources available to the City that would benefit the General Fund and provide financing for new and/or existing programs. Staff also indicated that addressing the General Fund's projected imbalance between revenues and expenditures could mean initiating new revenue*

*sources, expanding existing revenue sources through economic development, and/or cutting costs. Committee Member Kennedy asked staff how it is that staff tracks tax growth associated with new projects, such as the Dan Gamel expansion, new Ford dealership, the proposed In and Out Burger, Comcast, and Harley Davidson dealership. Staff responded that some of these projects were considered in the sales tax projections made as part of the budget. Staff also indicated that a list of such projects and their potential sales tax, or other revenue, benefit to the City would be initiated, and that such projects are already tracked through the City's economic development tracking process.*

*Committee Member Kennedy raised three questions that he believes need to be raised to set the stage for revenue enhancement, so that there may be a clear message to focus on revenue growth:*

- 1) What are revenue projections?*
- 2) What are expected new sources of revenues from development? The City should continue to focus on economic development.*
- 3) What other new sources of revenues might be viable?*

*Chair Roorda asked about the potential for property tax growth. Could we add more tax revenue given recent housing construction? Staff indicated that a reasonable projection of 5% growth had been included in the budget, but that this growth could have a more positive effect on revenues. Committee Member Sellers discussed a proposed bill (AB 1221) that would exchange local sales taxes for property taxes. This would be a big plus to cities because of where we are in the balance between property tax and sales tax revenues.*

*Committee Member Kennedy discussed a potential survey concerning new revenue sources. He indicated that the City Manager told him that the City could pay for a survey to determine what the community would support. New revenues so far discussed have included a Lighting & Landscape District, a utility tax, a recreation parcel tax, and a public safety parcel tax. Committee Member Kennedy indicated that the City needs to carefully ask questions to determine what taxes or assessments, at what levels, the community would support. Committee Member Sellers indicated that if a measure implementing new revenues were placed on the ballot, it would make sense to aim for November 2004. This would obviously not affect the 2003/04 City budget, but could affect the 2004/05 budget mid-year. He further indicated that the City needs to point out that it is the right thing to explore new revenue sources and that this is different than supporting a revenue increase. The story should be that the City Council is looking at all options. He is not sure that the City does need a new revenue source. He also said that revenues are continuing to drop and that we are spending more. Staff responded that this is true, but that if new projects were removed from the proposed 2003/04 budget, costs would actually drop compared to the previous year.*

*Chair Roorda talked about the \$3.6 million that needs to be cut from expenditures over the next 5 years, as projected in the proposed 2003/04 budget. He indicated that it is important to identify whether the costs are for existing services or new services and to tie these costs to any proposal for new revenues.*

*Staff indicated that the five year financial plan presented in the proposed 2003/04 budget shows a net operating deficit for the aquatics complex, but this may not be the case. Committee member Kennedy indicated that the plan is to not operate the aquatics complex at a loss. This may be accomplished by adjusting the timing of opening the complex and by entering into an agreement with the Morgan Hill Aquatics Foundation to operate the facility during the colder winter months.*

*Committee Member Sellers indicated that there has already been significant cost cutting and that it would be difficult to cut back further without impacting police, fire, and recreation services; the reductions that have already occurred should help the City in explaining the need for new revenues.*

**ADJOURNMENT (11:20 A. M.)**

**NOTICE**

**AMERICANS WITH DISABILITY ACT (ADA)**

The City of Morgan Hill complies with the Americans with Disability Act (ADA) and will provide reasonable accommodation to individuals with disabilities to ensure equal access to all facilities, programs and services offered by the City.

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